Chapter 12: The Growth of Economic Globalization

Knowledge and Understanding

Question 1 a) List the benefits and drawbacks of transnational corporations.
Benefits of transnational corporations:
- Provide consumers with an ever-expanding range of products and services at affordable prices. This allows an ever-larger proportion of the world's population to enjoy the benefits of everything from consumer goods to entertainment and pharmaceuticals.
- An overall increase in world economic growth that will make everyone wealthier by providing more jobs and greater economic production. This benefit has been described as "a rising tide that lifts all boats."
- A stimulus for the economic development of developing nations
- A faster and more equitable sharing of the most recent technological breakthroughs

Drawbacks of transnational corporations:
- The growth of transnationals encourages the worst aspects of globalization. There could be a loss of local cultural identities as the products of US, European, and Japanese companies become commonly used everywhere. In particular, US cultural values could erode local cultural identities, since US companies dominate the market for entertainment and consumer products.
- Corporations are becoming so large that it is not clear whose laws apply when a company's operations extend far beyond the borders of any one country.
- Rather than making everyone richer, the growth of transnationals benefits Old Core countries far more than other nations. Most of the best jobs and the profits go to the former. The latter obtain low-paying jobs, provide markets, and suffer the possibility of environmental damage. In this way, economic globalization is little more than a form of neo-colonialism.
- The operation of transnationals produces economic uncertainty. These companies "shop around" for the best places in which to do business. This means they can play one country against another in their search for the cheapest labour or the weakest environmental standards.

Question 1 b) In your mind, do the benefits outweigh the drawbacks? Explain the basis for your conclusion.
Students may support either side of the issue.

Question 2 a) Why is a comparison between a company's sales and a nation's GDP a meaningful one?
Both measures give an indication of the size of an "operation": in one case, a company's revenue; in the other, the value of goods and services produced in a country. While the analogy is not perfect, it is often used to compare the economic size of companies and countries.

Question 2 b) What does this comparison suggest about the amount of influence that a large company might have when it comes into conflict with smaller nations?
The comparison suggests that a large company may have great influence on a country. Indeed, many critics feel that companies can and do blackmail countries to get their way. For example, if a country tries to improve its labour laws or environmental standards, a large company may threaten to move a vitally needed factory to another country that makes fewer demands. As more large transnational companies develop, and as existing corporations become even larger and more powerful, this situation is even more likely to occur.

Question 2 c) Give two examples of the ways in which a large corporation could influence the decisions of a country's government.

Students may provide a variety of examples, such as the following. Large corporations could influence government decisions by

- bribing government officials to allow the company to set up operations, pay cheap wages, or despoil the environment. In 2006, Transparency International, a global civil society organization that fights against corruption, published a "Bribe Payers Index (BPI)" that ranked 30 of the leading exporting countries according to "the propensity of firms with headquarters within their borders to bribe when operating abroad." The study concluded that "companies from the 30 countries are far more likely to resort to bribery when working in Low Income Countries and in Africa." (www.transparency.org/about_us, www.globalpolicy.org/socecon/tncs/2006/1004bpi.pdf)
- threatening governments to modify their labour or environmental laws or the company will move its operations to another more cooperative country
- lobbying elected representatives to promote actions that benefit the company. This lobbying may consist of expensive dinners, trips, and the placement of new factories (i.e., jobs) in the electoral district of the member of government.
- supporting the election campaigns of candidates with large donations

Question 3 Examine the statistics in Figure 12–1 and answer the following questions.
Question 3 a) What kinds of businesses are most common among the largest companies in the world? (Remember that the majority of GE's revenues come from financial services with the remainder from manufacturing.) Why is this not a surprise?

The most common businesses among the largest corporations in Figure 12–1 are

- motor vehicle manufacturers (4)
- oil and gas companies (3)
- finance companies (2)
- retailing companies (1)

Question 3 b) What factors make it easier for a large corporation to get even larger than for smaller competitors to emerge in the same field? In what ways is this a desirable situation, and in what ways is it not?

Some of the factors that make it easier for a large corporation are as follows:

- Access to large amounts of capital gives it flexibility in where to operate.
- Large companies have the financial depth that allows them to reduce prices so low that smaller companies cannot survive. When the competition is eliminated, the large corporation can raise prices to recoup their short-term losses.
- Large corporations can buy out smaller competitors, thus reducing competition.
- It is easier for large corporations to fund new businesses or revive faltering ones by using the profits from their other healthy units.

This is a desirable situation because

- Large corporations have the financial depth and diversity to withstand economic downturns.
- Instead of spending huge amounts of money developing new technologies, large corporations can buy out the developer and incorporate the technologies in their global operations.

This is an undesirable situation because:

- Small corporations cannot compete against large ones that have lots of cash to attract the best management teams and workers.

- When large corporations buy out smaller ones, there is less competition and choice in the marketplace.

Question 3 c) Give two reasons why you may have heard of some of these companies and not others? Is this likely to change in the future?
There are two reasons why students may not have heard of some of these companies. One is that some may operate primarily in Japan or Europe, with relatively little public exposure in Canada.
The other is that while some of these companies operate in a part of the consumer sector with which students are familiar (e.g., General Motors, Wal-Mart, and Shell), others provide products that students would not be familiar with (e.g., Citigroup).

Question 4 a) How are the trade agreements of NAFTA and the countries of the EU similar?
The chief similarity is that both provide relatively free trade among their members. Furthermore, all these nations are prepared to give up a measure of national sovereignty in the belief that a more globalized view will pay off in the long run.

Question 4 b) In what ways are they different?
The European Union has taken the idea of economic globalization much further, for example, by establishing the euro as a common currency. Also, the EU allows for the easy movement of people between countries and has generous rights regarding workers from one member nation working in other EU countries.

Question 4 c) Could NAFTA develop to be more like the EU? Why or why not?
It could. For example, there has been some discussion over using the US dollar as the common currency of Canada and Mexico. (Unlike Europe, where no one currency was dominant, in North America it would make sense to use the US dollar as a common currency rather create a new one.)
There are reasons why this might not happen, though. Most Canadians are wary about giving up sovereignty. Also, the US has little interest in granting its partners easier access, especially after the terrorist attacks of September 11, 2001, and the controversy surrounding illegal immigrants.